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SUBJECT: BRAZIL: CONFERENCE ON FINANCE FOR REDUCING DEFORESTATION -  
MOVING FROM THE DRAWING BOARD TOWARD REALITY

REF: A) 2008 BRASILIA 1462, B) 2008 BRASILIA 1159,  
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¶1. (SBU) SUMMARY. An international conference, April 1-4, hosted by the Governor of Mato Grosso Blairo Maggi and the NGO Forest Trends, and co-funded by USAID, highlighted how far Brazil has come in recognizing its problem with massive, ongoing deforestation of the Amazon Forest. The conference explored an emerging category of market-oriented methods to finance conservation of the standing forest, known as Payments for Ecosystem Services (PES), which many expect will include Reducing Emission from Deforestation and Forest Degradation (REDD) from forest carbon offsets (such as under California's new cap-and-trade program), as well as payments for watershed management and biodiversity conservation. The conference emphasized roles for indigenous communities, farmers, and ranchers in such market-oriented systems. It also referred to new sources of donor funding, including contributions from Norway and prospects coming out of the immediately preceding meeting hosted by Prince Charles. END SUMMARY.

KATOOMBA CONFERENCE

¶2. (SBU) Brazil is entering a new phase where standing trees could have more value than felled ones, according to the 1400-plus representatives of the national government, state governments, and the scientific and NGO communities at a conference held in Cuiaba, the capital of the State of Mato Grosso, April 1-4. The conference hosted by the Governor of Mato Grosso, Blairo Maggi, and Forest Trends (an NGO) received financial support from USAID's Standing Forests Conservation Markets Initiative, of the global TRANSLINKS program. The theme of "Avoiding Deforestation in the Amazon: [Reducing Emissions from Deforestation and Forest Degradation] REDD & [Payment for Environmental Services] PES" attracted tremendous interest. Environment Minister Carlos Minc, Governor Maggi, and the governors of four other states, whose territory in aggregate include the vast majority of the Amazon Forest in Brazil, plus the Governor of the Province of Santa Cruz of Bolivia, and the Governor of the Department of Loreto in Peru, enthusiastically endorsed REDD and PES ideas and initiatives.

ENVIRONMENT MINISTER AND STATES EAGER TO MOVE FORWARD

¶3. (SBU) Minister Minc gave an arm-waving, very enthusiastic, upbeat assessment of Brazil's efforts to control deforestation. He claimed that for the ten months he has been in office the rate of

deforestation has plummeted 45% compared with the same period the year before. He noted the national government had cracked down on deforestation through more aggressive enforcement actions, seizing of cattle illegally grazing on government land, and denying cheap credit for those who are not complying with environmental laws. Further, the government had policies to promote the "Green Arc" in response to the "Arc of Fire," which consists of the areas currently being deforested. Minc said that enforcement alone can't solve the problem, and the government needed to create alternative, sustainable jobs for the 20 million Brazilian living in the Amazon region. The government has promoted certification programs where soy farmers and loggers can demonstrate their good stewardship and so improve market access abroad. He expected to expand the certification plan to include cattle - one of the primary threats - in the Amazon. He emphasized how he had convinced President Luiz Inacio Lula da Silva to include in the National Plan on Climate Change a target to reduce the rate of deforestation from nearly 20,000 square kilometers per year (during the period 1996-2005) to about 6,000 square kilometers per year by 2017. (REFTEL A)

14. (SBU) The government is seeking to reorganize agriculture in the Amazon, not stamp it out. Thus, the government was preparing to release Environmental and Economic Zoning (ZEE) Plans for the region, which would indicate where agriculture activity is prohibited and where it is allowed. The goal is to increase the productivity of the already cleared land, which with cattle is extraordinary low (about one head per hectare). Minc highlighted the Amazonia Fund (REFTEL B), which should provide funding to support efforts to control deforestation. For the representatives from Bolivia and Peru, Minc pointed out that up to 20 percent of the Amazonia Fund can be used in neighboring countries to support efforts against deforestation of the Amazon.

15. (SBU) Governor Maggi, commonly known as the "King of Soy,"

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demonstrated how far some Brazilian attitudes have come in the last twenty years. Previously, he said Mato Grosso and the rest of Brazil based economic growth on clearing the forests and making the land productive through cattle or crops. Maggi's own vast soybean farms were carved out of the forest and savannah lands. Today, he says that the thinking in Mato Grosso has to change and that the old model for economic growth cannot continue. The environmentalists and those seeking economic growth have to come to an understanding, he said. He added that he was no longer confronting environmentalists and now is working with them. In recent years, he has supported programs to promote compliance with environmental laws - such as The Nature Conservancy's USAID/Brazil-supported program in Lucas do Rio Verde - and to address the problem of the lack of land titles in many cases. Moreover, he was hosting (and co-funding) this conference. [The State Government covered about half of the conference cost, and Maggi's family company also contributed a small amount. USAID was the second largest contributor, at about 25%, followed by the Moore Foundation and others.] Minister Minc, who previously had tangled with Maggi on deforestation issues, now gave him a bear hug and applauded his efforts. Minc and Maggi jointly announced a plan called "MT Legal" (Mato Grosso legal) with the goal to help 140,000 farmers and ranchers in the State of Mato Grosso to obtain legal title to the land and to bring their land into compliance with environmental rules.

16. (SBU) The other governors endorsed the need for positive incentives such as REDD, pointing out that the problem can't be solved by tougher enforcement alone. All were in a hurry to implement programs to create sustainable jobs in the Amazon region. Some endorsed the use of reforestation to bring farms and ranches in the region into compliance with the requirement to maintain 80% forest coverage. The State of Para, where much of the recent deforestation has taken place, plans to plant one billion trees by 2013.

EXPERT SPEAKERS DISCUSS REDD, ONGOING PROJECTS, AND RISKS

17. (SBU) Much of the conference discussed the theory of REDD - providing payments to maintain a standing forest. An expert from McKinsey projected significant opportunities for REDD projects in

Brazil. Other experts described ongoing activities to reduce deforestation. Virgilio Vianna, the Director General of the Sustainable Amazonas Foundation discussed a project in Amazonas State (which includes about half of the Amazon forest in Brazil) to provide payments to forest residents in return for conserving the forest. (See REFTEL C.) The Nature Conservancy highlighted a project to encourage soy farmers to comply with environmental regulations. John Carter, the Director of the Alianca da Terra (Alliance of the Land) focused on the lawlessness in the Amazon region and the effort of his organization to help interested farmers and ranchers to become legitimate.

18. (SBU) A discussion of the voluntary carbon market suggested that this market could provide some assistance, but that it may not provide the scale of funding needed to support large REDD projects in the Amazon without the stimulation of new regulatory market [Climate Convention] requirements (which do seem increasingly likely to emerge). The conference organizers brought in speakers on other potential streams of funding to support forest conservation, particularly payments for environmental services beyond carbon, such as conserving water resources, soil, and biodiversity, which may show special promise when integrated or "bundled" together with community development/poverty reduction objectives and "living carbon" into premium-priced PES instruments

NORWAY AND PRINCE CHARLES AND CALIFORNIA

19. (SBU) The dramatic difference between this conference and the many others on deforestation in the years before is the palpable sense that finally significant sums of funding for deforestation could be flowing into the Amazon. Minc announced that the Norwegian government has contributed its first USD 120 million of a one billion dollar pledge to the Amazonia Fund. The outgoing head of the Brazilian Forest Service, Tasso Azevedo, briefed the conference on the recent meeting in London of Prince Charles' Rainforest Initiative (REFTEL D), which signaled likely new flows of resources to Brazil and other countries with tropical forests.

110. (SBU) The appearance of a team from the State of California headed by Tony Brunello, the Deputy Secretary for Energy and Climate Change, was a striking contribution to the conference. The team came to identify possible forest carbon offset projects that could

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qualify under the State cap-and-trade system that goes into effect in 2012 under Assembly Bill 32. Since the conference, each of the states in the Amazon region has been requested to submit two proposals to the Californians. It appears REDD and/or forest carbon offset projects on a large scale will likely becoming a reality in Brazil in the near future. This is apart from any arrangement coming out of the ongoing negotiations under the UN Framework Convention on Climate Change

111. (SBU) COMMENT. Brazil is entering a new phase in the battle against deforestation, moving from identifying the problem and thinking about possible responses, to receiving funding and actually implementing projects. In particular, the nascent Amazonia Fund, with projected funding of over a billion dollars, will likely become the first mechanism in the world to implement REDD projects on a large scale. These new developments do not mean that Brazil has the deforestation problem under control. The country still faces the challenges of dealing with large numbers of farmers and ranchers and loggers operating outside the law, as well as finding employment in a sustainable environmental manner for the twenty million residents of the region. Nonetheless, Brazil seems to be moving from the talking phase toward real activities on a major scale.

112. (SBU) COMMENT. Unfortunately, the progress seen in addressing the deforestation issue domestically has not had a noticeable impact on the Brazilian government's position in the ongoing international negotiations on a new climate change agreement. The Brazilian delegation is led by the Ministry of External Relations, not the Ministry of Environment. Brazil is one of the most vocal defenders of the principle of "common, but differentiated responsibilities" with respect to climate change. They insist that Brazil and other developing countries will not accept targets for reducing greenhouse

gas emissions. For Brazil, the vast majority of its emissions come from deforestation. Further, the Brazilian delegation continues to oppose including forest conservation within the scope of the new agreement. END COMMENT.

SOBEL